Chinese investors blame share collapse on state

Analysts single out shadowy world of margin lending, which has pumped borrowed money into the market

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At a stock trading hall for retail investors near People’s Square in Shanghai, the mood is gloomy.

Shenying Wangs, like other Chinese brokerage, maintains it had for investors to hang around, make a few trades and share tips. Among the mostly elderly

investors, going hand in hand with the socialist model, is the belief that the government should protect them from risk.

"We’ll do what the government tells us to do. We don’t believe the regulations any more," says Ms. Wu, a 70-year-old retiree.

China’s main stock index lost 5 per cent yesterday, shrugging off an interest rate cut by the central bank over the weekend. The market has now tumbled 22 per cent since hitting a seven-year high only 12 days ago. Ms Wang counts her losses in the hundreds of thousands of yuan.

"The government is protecting the internet plus, not the traditional financial stocks," she says. "Their rules look good. But there are some few limits to limits. Now I’m stuck," she says, refering to the maximum 10 per cent limit on stock-buying for lessors single-day.

Reflecting the soaring number of investors into the market, trading accounts holdin g at least some stock fell by about 10 per cent in Beijing and Shanghai. Yet analysts say the levels of China’s stock boom, and its sudden fall, is not old fashioned retail trading halls. Instead, it has been fueled, which also exist during China’s last big equity boom, by an army of day traders whosi stock brokerages peaked at Rmb2.3tn and bust, has played a central role exist during China’s last big equity boom. But even that figure fails to capture the full extent of leveraged stock investing. In addition to brokerages, grey-market margin lending through third parties has pumped an additional Rmb500bn to Rmb1tn in borrowed money into the market, according to estimates from banking institutions.

Brokerages limit margin lending to a ratio of two-to-one and require clients to put up at least Rmb100,000. By contrast, Shanghai Corp, a company that connects punters with borrowed money, allows leveraging of up to six-to-one, and requires as little as Rmb20,000 to take their positions unless they can post additional collateral.

David Gao, equity analyst at Bank of America Merrill Lynch, estimates that the Shanghai Corp would need to sell an additional 40 per cent for large-scale margin calls to kick off an official margin lending. "However, this doesn’t mean that there is not a serious risk right now," he writes in a note favouring "The selling pressure might not be of the magnitude that the market has been relying on. It is a market shortage of liquidity that problems the market to rebound. They argue that the fundamental factors underlying the rally, especially loose: monetary policy and ongoing economic reforms in China, are still intact, even as volatility now looks more normal.

Additional reporting by Ma Nann